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## Agenda Item 16

June 15, 2011

### TO: MEMBERS OF THE BOARD OF ADMINISTRATION

- I. **SUBJECT:** Diversity Update
- II. **PROGRAM:** Diversity Outreach Program, Investment Office, and Legal Office
- III. **RECOMMENDATION:** Information Item
- IV. **ANALYSIS:**

The purpose of this agenda item is to provide an overview and status of the Diversity Outreach Program (CDOP), the Investment (INVO), and the Legal Office's diversity and inclusion (D&I) efforts.

As a global investor, public employer, and provider of retirement and health benefits services within the nation's most ethnically and culturally diverse state, CalPERS recognizes diversity as a competitive advantage that calls for the broadest possible pool of talent, experience, and perspective. The CalPERS Board of Administration acknowledged this by including diversity as an element in our Strategic Plan.

### **Diversity Outreach Program – Internal Operations**

#### ***CDOP Accomplishments for 2010-11***

In the past year, CDOP staff developed, implemented, or participated in various organization-wide initiatives, and external multifaceted activities, enhancing appreciation for D&I at CalPERS. A few examples include:

- Collaborated with the Strategic Management Services Division to develop the *2011-12 Enterprise D&I Strategic Plan*
- Hosted twenty three top-level Human Resources professionals from China
- Conducted an online enterprise Employee Disability Survey and increased CalPERS parity rate from 13.8 percent to 18.0 percent
- Facilitated four Diversity Executive Steering Committee meetings
- Conducted program presentations in New Employee Orientation, and Leadership Essentials and Direction for Your Emerging Role Training

- Contributed to the *CalPERS Commitment to Diversity* report
- Hosted three Quarterly D&I Brown Bag Luncheon Series events
- Published the Disability Advisory Council brochure
- Contributed to the *Annual Compliance Report*
- Completed the *2010-2011 Annual Workforce Analysis* report
- Developed a Limited Examination Appointment Program Policy in partnership with the Human Resources Division (HRSD)
- Administered the *2010 Enterprise Diversity and Inclusion Pulse Survey*
- Sponsored the Disability Awareness Training for CalPERS leaders
- Conducted the D&I Employee Focus Group
- Developed a D&I performance factor for manager and supervisor Annual Reviews
- Integrated D&I language into various training modules
- Developed D&I into CEA objectives

### ***Diversity and Inclusion Employee Focus Group***

As reported in the last quarter's report, CDOP did not achieve its D&I goal as stated in the *2010-11 CalPERS Business Plan*. To address the results, action steps included the formation of the D&I Employee Focus Group. We challenged the Focus Group to look at the survey results and our staff's comments and come back with solutions to specific problems identified in the survey.

Focus Group members had a very short window of time to do this important work and they are currently working diligently to develop recommendations that they will present to the Diversity Executive Steering Committee later this month.

We believe the key is to hear from our workforce on how we can do a better job around D&I at CalPERS. The Diversity Executive Steering Committee is prepared to review the recommendations and consider adding initiatives to the *2011-12 D&I Business Plan*.

### ***2010-11 CalPERS Commitment to Diversity Report***

Last month, CDOP, Office of Public Affairs, HRSD, the Investment Office, and the Office of Governmental Affairs released the *2010-11 CalPERS Commitment to Diversity Report*. This report highlights CalPERS ongoing D&I strategies that reflect and benefit our workforce, workplace, and marketplace.

### ***Disability Advisory Council - Disability Advisory Council Brochure***

California Government Code, section 19795(b)(1) requires each State agency to establish a committee of employees who have a disability or who have an interest in disability issues. Their role is to advise the Executive Staff on issues concerning employees with disabilities, and on matters relating to forming and implementing a plan to overcome and correct any under-representation of CalPERS employees with a disability.

Earlier this month, CDOP published a new brochure. The brochure explains the purpose of the Disability Advisory Council and will help build capacity for council membership.

The brochure is intended to be distributed at CalPERS events such as the Quarterly D&I Brown Bag Luncheon Series, Leadership Programs for executives, managers, and supervisors; and New Employee Orientation. A PDF version of the brochure will be available on the *CalPERS Insider*.

### ***Future Activities***

Staff will conduct a *Managing a Multigenerational Workforce* presentation at the Board of Administration's off-site in July. The presentation describes the different generations in the workforce and the impact of generational differences on CalPERS management. In addition, the generational makeup of the CalPERS workforce is explored.

Each generation has its own work ethic that influences their perceptions of such things as leadership and work/life balance. As generation is an aspect of diversity and inclusion, learning about the different lens through which each generation views their work life can enhance our leaders' cultural competency.

In partnership with HRSD, staff is working on a D&I Hiring Process Initiative. The goal of this initiative is to achieve a diverse and inclusive CalPERS workforce that mirrors the diversity of the members we serve. Staff is working to identify strategies and approaches that can be implemented within 90 days and result in “quick wins,” and will help realize the initiative goals. For example, strategies may include:

- Require search firms to provide a diverse pool of candidates when sourcing candidates for vacant positions
- Training workshop for managers and supervisors on appropriate interviewing and hiring practices
- Require hiring managers and supervisors to include at least one interview panel member from outside of the program area and who has program knowledge or expertise
- Make a concerted effort to reflect diversity in hiring interview panels
- Require Division Chiefs to review and approval all hires at the managerial levels within their divisions

### **Investment Office**

#### ***Portfolio Management – Programs & Research***

CalPERS committed a total of \$400 million to three emerging managers through the Manager Development Program II (MDP II) in the Global Equity asset class. \$150 million each to:

- Paris, France based TOBAM for a quantitative core strategy;
- San Francisco, California based Victoria for an emerging markets strategy; and
- \$100 million to Quotient, an existing MDP II emerging manager since 2008, for product line expansion into environmental, social, and governance strategies.

MDP II provides assets to small and emerging public equity firms that have less than \$2 billion in assets under management. This program provides venture or growth equity capital in exchange for a stake in the firm. MDP II advisors Victoria by Legato Capital Management and the TOBAM by Strategic Investment Group sourced the new firms.

In October 2010, the Investment Committee approved continuation of a Spring-Fed Pool of consultants to provide research assistance to CalPERS on a variety of diversity related best practices and strategies within the investment management industry. The first pool, established in January 2006, is a novel concept in the marketplace among peer investors.

Staff released a Request for Proposal resulting in six contracts awarded within the Investment Diversity Consultant Services Spring-Fed Pool that began in May 1, 2011 and will expire April 30, 2016.

### ***External Outreach – Networking & Pipeline Development***

CalPERS hosted an hour-long online webinar on Wednesday, June 1, 2011. This external outreach pilot initiative, designed by the Investment Office, explores CalPERS programs for emerging investment managers. More than 200 registered attendees learned about CalPERS organizational structure, new asset allocation framework and investment strategies, and how to submit a proposal online directly to CalPERS Investment Office.

CalPERS is a longstanding supporter and partner of the Toigo Foundation, an organization aspiring to increase diversity in the financial services industry. Alumni of this fellowship program continue their tradition of giving back, including participating in the interview process of finalist candidates for incoming Toigo MBA classes. Two CalPERS Investment Office staff members who are also Toigo alums interviewed candidates for the class of 2013 at the foundation's Oakland, CA offices in April.

Earlier this month, Investment Office staff participated on a panel discussion at *The Consortium: A Forum for Plan Sponsors, Minority and Women-Owned Firms*. In its eighth year, the Consortium is produced by RG & Associates, a firm in CalPERS Investment Diversity Consultant Services Spring-Fed Pool, and attracts more than 350 investment professionals.

### ***Future Plans***

CalPERS has been selected as this year's recipient of the National Association of Securities Professionals' (NASP) Pacesetter Award. The Pacesetter Award was created by NASP to recognize individual trustees, funds, or entities that have ensured or promoted the full involvement of women and minorities in the securities industry. NASP noted in its announcement message to the Chief Investment Officer (CIO) that "...CalPERS is more than deserving of this award in light of its demonstrated commitment to diversity and implementation of innovative programs to increase minority participation."

In addition, Investment Office staff will participate this week at the NASP 22nd Annual Pension and Financial Services Conference. Senior staff will accept this prestigious award on behalf of CalPERS, after airing of a videotaped message of recognition from our CIO. At the same luncheon, the City of Atlanta General Employees' Pension Fund will also receive a Pacesetter Award.

Past Pacesetter Award recipients include: Henry Nicholas and George R. Tydings, the DC Retirement Board, Nicholas J. Maiale, H. Carl McCall and Samuel Staten, Sr. (1996); the Florida Board of Administration (1997); the Ohio Bureau of Workers' Compensation (1998); Prince George's County (1999); the State of Wisconsin Investment Board (2000); Major F. Riddick, Jr. (2001); Howard University (2002); the New York City Retirement System (2003); the Chicago Teachers' Retirement System (2004); the Los Angeles City Employees' Retirement System (2005); Lois Jean Turner (2006); Pervis Thomas (2007); CalSTRS and the City of Philadelphia Board of Pensions and Retirement (2008); the Maryland State Retirement and Pension System and the State of New York (2009); Gary Grippo, and the Illinois State Senate (2010).

CalPERS is hosting an investment workshop on June 28, 2011 in Sacramento. Panelists comprising of senior investment office staff, consultants, and advisors for Public and Private Equity, and Hedge Fund strategies will discuss how entrepreneurs can successfully organize their firms and build operations and compliance capabilities. The workshop concludes with a networking session for invited new and emerging investment managers to connect with our investment staff and partners. This diversity external outreach initiative design is based in part on participant feedback from a workshop held in February 2010.

### **Legal Office**

The Legal Office's Diversity Project seeks to increase diversity within the pool of outside counsel with which CalPERS contracts for legal services so that the pool reflects California's diverse population, provides a broad spectrum of experience, talent, viewpoints and strategies, and elevates the professional expertise available to the CalPERS system through contracting opportunities.

The *2010-11 CalPERS Business Plan* includes a specific initiative designed to improve outside counsel diversity. The initiative provides that by June 30, 2011, the Legal Office will expand external legal counsel contracts by creating pools in at least four specialty areas through the addition of firms reflective of California's diverse population.

To achieve the initiative set forth in the *2010-11 CalPERS Business Plan*, the Legal Office will create pools of outside counsel firms in the specialty areas of:

- Health Care Law
- Labor/Employment
- Business Litigation
- Family Law/Community Property

Interviews for Health Care counsel were conducted in early March, and the Legal Office added one diverse law firm to this pool of four firms.

The solicitation for Labor/Employment counsel, released in November 2010, resulted in a robust pool of candidates, including several diverse firms. Interviews for this pool are currently in process, and we anticipate awarding contracts in June. Our initial solicitation for Family Law/Community Property counsel received no responses and was re-released on May 9, 2011 with responses due June 9, 2011.

The Legal Office received 34 responses to the Business Litigation counsel solicitation, including responses from several diverse firms. Review of these proposals is in progress.

## **V. STRATEGIC PLAN:**

This agenda item is in alignment with the following Strategic Goals:

- II. Foster a work environment that values quality, respect, diversity, integrity, openness, communication, and accountability;
- III. Sustain a high performance work culture utilizing staff development, technology, and innovative leadership and management strategies;
- IV. Design and develop education and communication initiatives to ensure broad member and stakeholder understanding of CalPERS value; and
- IX. Achieve long term, sustainable, risk-adjusted returns.

**I. RESULTS/COSTS:**

This agenda item will result in regular program cost only.

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